

VILLAGE OF THREE OAKS
Berrien County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Seven Months Ended September 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Three Oaks	County Berrien
Fiscal Year End September 30, 2007	Opinion Date March 21, 2008	Date Audit Report Submitted to State March 28, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.		Telephone Number 989-894-1040	
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
		Zip 48707	
Authorizing CPA Signature 		Printed Name Mark J. Campbell	License Number 1101007803

VILLAGE OF THREE OAKS
Berrien County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

March 21, 2008

To the Village Council
Village of Three Oaks
Berrien County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Village of Three Oaks, Berrien County, Michigan as of and for the seven months ended September 30, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Three Oaks' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Village of Three Oaks, Berrien County, Michigan as of September 30, 2007, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the seven months then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2008, on our consideration of the Village's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF THREE OAKS
Berrien County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the seven months ended September 30, 2007

The Management's Discussion and Analysis report of the Village of Three Oaks covers the Village's financial performance during the seven months ended September 30, 2007.

FINANCIAL HIGHLIGHTS

Net assets at September 30, 2007, totaled \$962,157.78 for governmental activities and \$2,731,018.92 for business activities.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental activities and business-type activities. These include the General Fund, Major Street Fund, Local Street Fund, Water Fund and the Sewer Fund.

VILLAGE OF THREE OAKS
Berrien County, Michigan

CONDENSED FINANCIAL INFORMATION
September 30, 2007

	Governmental Activities 2007	Business-type Activities 2007	Total 2007	Component Unit 2007
Current Assets	747 205 41	215 746 52	962 951 93	85 393 84
Other Assets	-	221 053 45	221 053 45	-
Capital Assets	685 497 21	5 883 050 29	6 568 547 50	-
Total Assets	1 432 702 62	6 319 850 26	7 752 552 88	85 393 84
Current Liabilities	459 077 84	179 831 34	638 909 18	-
Non-current Liabilities	47 467 00	3 409 000 00	3 456 467 00	-
Total Liabilities	506 544 84	3 588 831 34	4 095 376 18	-
Net Assets:				
Invested in Capital Assets	638 030 21	2 365 050 29	3 003 080 50	-
Restricted	-	167 830 74	167 830 74	-
Unrestricted	288 127 57	198 137 89	486 265 46	85 393 84
Total Net Assets	926 157 78	2 731 018 92	3 657 176 70	85 393 84
	Governmental Activities 2007	Business-type Activities 2007	Total 2007	Component Unit 2007
Program Revenues:				
Fees and charges for services	136 033 58	257 221 43	393 255 01	-
General Revenues:				
Property taxes	477 905 57	-	477 905 57	-
State revenue sharing	158 493 46	-	158 493 46	-
Interest	3 164 83	5 861 78	9 026 61	627 67
Miscellaneous	1 246 95	-	1 246 95	-
Total Revenues	776 844 39	263 083 21	1 039 927 60	627 67
Program Expenses:				
General Government and Administration	169 028 30	-	169 028 30	-
Public Safety	205 584 47	-	205 584 47	-
Public Works	174 592 04	-	174 592 04	-
Health and Recreation	30 783 75	-	30 783 75	-
Water and Sewer	-	264 405 11	264 405 11	-
Downtown Development Authority	-	-	-	4 847 41
Total Expenses	579 988 56	264 405 11	844 393 67	4 847 41
Increase in Net Assets Before Transfers	196 855 83	(1 321 90)	195 533 93	(4 219 74)
Transfers	50 000 00	-	50 000 00	(50 000 00)
Increase (Decrease) in Net Assets	246 855 83	(1 321 90)	245 533 93	(54 219 74)
Net Assets, March 1	679 301 95	2 732 340 82	3 411 642 77	139 613 58
Net Assets, September 30	926 157 78	2 731 018 92	3 657 176 70	85 393 84

VILLAGE OF THREE OAKS
Berrien County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the seven months ended September 30, 2007

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

Governmental Funds: Some of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include the General Fund, Major Street Fund, and the Local Street Fund.

Business-Type Funds: The Village has a Water Fund and Sewer Fund which includes the activity of providing water and sewer to Village residents.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Overall revenues were \$776,844.39 from governmental activities and \$263,083.21 from business-type activities. Governmental activities had a \$246,855.83 increase in net assets. Business-type activities had a \$1,321.90 decrease in net assets.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund had a \$227,620.87 increase in fund balance. The Major Street Fund had a \$39,276.25 increase in fund balance. The Local Street Fund had a \$13,738.80 increase in fund balance.

The Water Fund had a \$21,175.72 increase in net assets and the Sewer Fund had a \$22,497.62 decrease in net assets.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities invested \$0 in capital assets.

The Village's business-type activities invested \$0 in capital assets.

The Village's governmental activities paid \$0 of principal on long-term debt.

The Village's business-type activities paid \$108,000.00 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report please contact the Village Clerk or Village Treasurer at 269-756-9221.

VILLAGE OF THREE OAKS
Berrien County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
September 30, 2007

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
ASSETS:				
CURRENT ASSETS:				
Cash in bank	421 372 27	168 603 21	589 975 48	52 213 85
Cash on hand	100 00	100 00	200 00	-
Taxes receivable	76 506 44	-	76 506 44	-
Accounts receivable	-	42 508 86	42 508 86	-
Due from other funds	249 226 70	-	249 226 70	-
Due from primary government	-	-	-	33 179 99
Inventory	-	4 534 45	4 534 45	-
Total Current Assets	747 205 41	215 746 52	962 951 93	85 393 84
OTHER ASSETS:				
Cash in bank – restricted	-	221 053 45	221 053 45	-
Total Other Assets	-	221 053 45	221 053 45	-
CAPITAL ASSETS:				
Capital Assets	1 511 318 00	8 792 062 00	10 303 380 00	-
Less: Accumulated Depreciation	(825 820 79)	(2 909 011 71)	(3 734 832 50)	-
Total Capital Assets	685 497 21	5 883 050 29	6 568 547 50	-
TOTAL ASSETS	1 432 702 62	6 319 850 26	7 752 552 88	85 393 84
LIABILITIES AND NET ASSETS				
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable	194 279 78	-	194 279 78	-
Current portion of long-term liabilities	-	134 000 00	134 000 00	-
Accrued interest payable	-	28 222 71	28 222 71	-
Due to other funds	231 618 07	17 608 63	249 226 70	-
Due to component unit	33 179 99	-	33 179 99	-
Total Current Liabilities	459 077 84	179 831 34	638 909 18	-
NON-CURRENT LIABILITIES:				
Bonds payable	-	3 409 000 00	3 409 000 00	-
Contract payable	47 467 00	-	47 467 00	-
Total Non-current Liabilities	47 467 00	3 409 000 00	3 456 467 00	-
Total Liabilities	506 544 84	3 588 831 34	4 095 376 18	-
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	638 030 21	2 365 050 29	3 003 080 50	-
Restricted	-	167 830 74	167 830 74	-
Unrestricted	288 127 57	198 137 89	486 265 46	85 393 84
Total Net Assets	926 157 78	2 731 018 92	3 657 176 70	85 393 84
TOTAL LIABILITIES AND NET ASSETS	1 432 702 62	6 319 850 26	7 752 552 88	85 393 84

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS
Berrien County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Seven months ended September 30, 2007

		<u>Program Revenue</u>	<u>Primary Government Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	9 300 00	-	(9 300 00)
General government	159 728 30	14 250 93	(145 477 37)
Public safety	205 584 47	41 742 65	(163 841 82)
Public works	174 592 04	80 040 00	(94 552 04)
Health and recreation	30 783 75	-	(30 783 75)
Total Governmental Activities	<u>579 988 56</u>	<u>136 033 58</u>	<u>(443 954 98)</u>
Business Type Activities:			
Water and sewer	264 405 11	257 221 43	-
Total Business Type Activities	<u>264 405 11</u>	<u>257 221 43</u>	<u>-</u>
Total Primary Government	<u>844 393 67</u>	<u>393 255 01</u>	<u>(443 954 98)</u>
Component Unit:			
Downtown Development Authority	<u>4 847 41</u>	<u>-</u>	<u>-</u>
General Revenues:			
Property taxes			477 905 57
State revenue sharing			158 493 46
Interest			3 164 83
Transfers			50 000 00
Miscellaneous			<u>1 246 95</u>
Total General Revenues			<u>690 810 81</u>
Change in net assets			246 855 83
Net assets, beginning of period			<u>679 301 95</u>
Net Assets, End of Period			<u>926 157 78</u>

The accompanying notes are an integral part of these financial statements.

<u>Primary Government</u> <u>Business Type</u> <u>Activities</u>	<u>Primary Government</u> <u>Total</u>	
<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>	<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>	<u>Component</u> <u>Unit</u>
-	(9 300 00)	-
-	(145 477 37)	-
-	(163 841 82)	-
-	(94 552 04)	-
-	(30 783 75)	-
-	(443 954 98)	-
(7 183 68)	(7 183 68)	-
(7 183 68)	(7 183 68)	-
(7 183 68)	(451 138 66)	-
-	-	(4 847 41)
-	477 905 57	-
-	158 493 46	-
5 861 78	9 026 61	627 67
-	50 000 00	(50 000 00)
-	1 246 95	-
5 861 78	696 672 59	(49 372 33)
(1 321 90)	245 533 93	(54 219 74)
2 732 340 82	3 411 642 77	139 613 58
2 731 018 92	3 657 176 70	85 393 84

VILLAGE OF THREE OAKS
Berrien County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	404 018 88	13 131 44	4 221 95	421 372 27
Cash on hand	100 00	-	-	100 00
Taxes receivable	76 506 44	-	-	76 506 44
Due from other funds	<u>249 226 70</u>	<u>-</u>	<u>-</u>	<u>249 226 70</u>
Total Assets	<u>729 852 02</u>	<u>13 131 44</u>	<u>4 221 95</u>	<u>747 205 41</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	46 389 14	147 890 64	-	194 279 78
Due to other funds	-	69 876 31	161 741 76	231 618 07
Due to component unit	<u>33 179 99</u>	<u>-</u>	<u>-</u>	<u>33 179 99</u>
Total liabilities	<u>79 569 13</u>	<u>217 766 95</u>	<u>161 741 76</u>	<u>459 077 84</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated (deficit)	<u>650 282 89</u>	<u>(204 635 51)</u>	<u>(157 519 81)</u>	<u>288 127 57</u>
Total fund equity (deficit)	<u>650 282 89</u>	<u>(204 635 51)</u>	<u>(157 519 81)</u>	<u>288 127 57</u>
Total Liabilities and Fund Equity	<u>729 852 02</u>	<u>13 131 44</u>	<u>4 221 95</u>	<u>747 205 41</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS
Berrien County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
September 30, 2007

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	288 127 57
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	1 511 318 00
Accumulated depreciation	(825 820 79)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Contract payable	<u>(47 467 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>926 157 78</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS
Berrien County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS

Seven months ended September 30, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:				
Property taxes	477 905 57	-	-	477 905 57
Licenses and permits	20 358 07	-	-	20 358 07
State revenue sharing	90 496 15	46 919 68	21 077 63	158 493 46
Charges for services - PTAF	4 780 06	-	-	4 780 06
Charges for services – police	30 855 45	-	-	30 855 45
Interest	2 724 81	332 97	107 05	3 164 83
Special assessments	80 040 00	-	-	80 040 00
Miscellaneous	<u>1 246 95</u>	<u>-</u>	<u>-</u>	<u>1 246 95</u>
Total revenues	<u>708 407 06</u>	<u>47 252 65</u>	<u>21 184 68</u>	<u>776 844 39</u>
Expenditures:				
Legislative:				
Village Council	9 300 00	-	-	9 300 00
General government:				
Clerk	9 634 90	-	-	9 634 90
Treasurer	13 330 67	-	-	13 330 67
Unallocated	131 030 90	-	-	131 030 90
Public safety:				
Police protection	148 696 17	-	-	148 696 17
Fire protection	38 000 00	-	-	38 000 00
Planning and zoning	11 790 87	-	-	11 790 87
Public works:				
Highways and streets	147 174 86	7 976 40	7 445 88	162 597 14
Health and recreation:				
Parks and recreation	<u>21 827 82</u>	<u>-</u>	<u>-</u>	<u>21 827 82</u>
Total expenditures	<u>530 786 19</u>	<u>7 976 40</u>	<u>7 445 88</u>	<u>546 208 47</u>
Excess (deficiency) of revenues over expenditures	<u>177 620 87</u>	<u>39 276 25</u>	<u>13 738 80</u>	<u>230 635 92</u>
Other financing sources (uses):				
Operating transfers in	<u>50 000 00</u>	<u>-</u>	<u>-</u>	<u>50 000 00</u>
Total other financing sources (uses)	<u>50 000 00</u>	<u>-</u>	<u>-</u>	<u>50 000 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	227 620 87	39 276 25	13 738 80	280 635 92
Fund balances (deficits), March 1	<u>422 662 02</u>	<u>(243 911 76)</u>	<u>(171 258 61)</u>	<u>7 491 65</u>
Fund Balances (Deficits), September 30	<u>650 282 89</u>	<u>(204 635 51)</u>	<u>(157 519 81)</u>	<u>288 127 57</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS
Berrien County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Seven months ended September 30, 2007

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 280 635 92

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense (33 780 09)

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt -

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 246 855 83

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS
Berrien County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS
September 30, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	60 093 78	108 509 43	168 603 21
Cash on hand	100 00	-	100 00
Accounts receivable	15 618 53	26 890 33	42 508 86
Internal balances	907 85	(907 85)	-
Inventory	<u>1 279 45</u>	<u>3 255 00</u>	<u>4 534 45</u>
Total Current Assets	<u>77 999 61</u>	<u>137 746 91</u>	<u>215 746 52</u>
OTHER ASSETS:			
Cash in bank – restricted	<u>124 448 36</u>	<u>96 605 09</u>	<u>221 053 45</u>
Total Other Assets	<u>124 448 36</u>	<u>96 605 09</u>	<u>221 053 45</u>
CAPITAL ASSETS:			
Capital Assets	1 707 292 00	7 084 770 00	8 792 062 00
Less: Accumulated Depreciation	<u>(976 874 08)</u>	<u>(1 932 137 63)</u>	<u>(2 909 011 71)</u>
Total Capital Assets	<u>730 417 92</u>	<u>5 152 632 37</u>	<u>5 883 050 29</u>
TOTAL ASSETS	<u><u>932 865 89</u></u>	<u><u>5 386 984 37</u></u>	<u><u>6 319 850 26</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Current portion of long-term liabilities	25 000 00	109 000 00	134 000 00
Accrued interest payable	7 916 46	20 306 25	28 222 71
Due to other funds	<u>12 256 89</u>	<u>5 351 74</u>	<u>17 608 63</u>
Total Current Liabilities	<u>45 173 35</u>	<u>134 657 99</u>	<u>179 831 34</u>
LONG-TERM LIABILITIES:			
Bonds payable	750 000 00	2 793 000 00	3 543 000 00
Less current portion	<u>(25 000 00)</u>	<u>(109 000 00)</u>	<u>(134 000 00)</u>
Total Long-Term Liabilities	<u>725 000 00</u>	<u>2 684 000 00</u>	<u>3 409 000 00</u>
Total Liabilities	<u>770 173 35</u>	<u>2 818 657 99</u>	<u>3 588 831 34</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	5 417 92	2 359 632 37	2 365 050 29
Restricted	91 531 90	76 298 84	167 830 74
Unrestricted	<u>65 742 72</u>	<u>132 395 17</u>	<u>198 137 89</u>
Total Net Assets	<u>162 692 54</u>	<u>2 568 326 38</u>	<u>2 731 018 92</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>932 865 89</u></u>	<u><u>5 386 984 37</u></u>	<u><u>6 319 850 26</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS
Berrien County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
BUSINESS-TYPE FUNDS

Seven months ended September 30, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES:			
Service charges	100 812 28	156 409 15	257 221 43
Total Operating Revenues	<u>100 812 28</u>	<u>156 409 15</u>	<u>257 221 43</u>
OPERATING EXPENSES:			
Wages	9 775 99	4 666 16	14 442 15
Fringe benefits	1 930 62	1 381 29	3 311 91
Supplies	3 618 18	2 742 68	6 360 86
Repairs and maintenance	11 396 73	8 094 31	19 491 04
Contracted services	281 25	1 586 56	1 867 81
Utilities	6 822 53	4 048 57	10 871 10
Miscellaneous	2 261 65	4 573 09	6 834 74
Total Operating Expenses	<u>36 086 95</u>	<u>27 092 66</u>	<u>63 179 61</u>
Operating Income (loss) before depreciation	64 725 33	129 316 49	194 041 82
Less: depreciation	<u>(22 509 08)</u>	<u>(101 665 63)</u>	<u>(124 174 71)</u>
Operating income (loss)	<u>42 216 25</u>	<u>27 650 86</u>	<u>69 867 11</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest income	2 348 59	3 513 19	5 861 78
Interest expense	<u>(23 389 12)</u>	<u>(53 661 67)</u>	<u>(77 050 79)</u>
Total Non-operating Revenues (Expenses)	<u>(21 040 53)</u>	<u>(50 148 48)</u>	<u>(71 189 01)</u>
Change in net assets	21 175 72	(22 497 62)	(1 321 90)
Net assets, beginning of period	<u>141 516 82</u>	<u>2 590 824 00</u>	<u>2 732 340 82</u>
Net Assets, End of period	<u><u>162 692 54</u></u>	<u><u>2 568 326 38</u></u>	<u><u>2 731 018 92</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS
Berrien County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS
Seven months ended September 30, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	103 815 75	166 970 82	270 786 57
Cash payments to suppliers for goods and services	(28 383 13)	(37 499 33)	(65 882 46)
Cash payments to employees for services	(9 775 99)	(4 666 16)	(14 442 15)
Net cash provided (used) by operating activities	<u>65 656 63</u>	<u>124 805 33</u>	<u>190 461 96</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on bonds	-	(108 000 00)	(108 000 00)
Interest paid on bonds	(23 389 12)	(53 661 67)	(77 050 79)
Net cash provided (used) by capital and related financing activities	<u>(23 389 12)</u>	<u>(161 661 67)</u>	<u>(185 050 79)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
(Increase) decrease due to other funds	<u>(6 316 96)</u>	<u>(525 86)</u>	<u>(6 842 82)</u>
Net cash provided (used) by non-capital financing activities	<u>(6 316 96)</u>	<u>(525 86)</u>	<u>(6 842 82)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	<u>2 348 59</u>	<u>3 513 19</u>	<u>5 861 78</u>
Net cash provided (used) by investing activities	<u>2 348 59</u>	<u>3 513 19</u>	<u>5 861 78</u>
Net increase (decrease) in cash	38 299 14	(33 869 01)	4 430 13
Cash beginning of period	<u>146 243 00</u>	<u>238 983 53</u>	<u>385 226 53</u>
Cash End of Period	<u><u>184 542 14</u></u>	<u><u>205 114 52</u></u>	<u><u>389 656 66</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income (loss) from operations	42 216 25	27 650 86	69 867 11
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:			
Depreciation	22 509 08	101 665 63	124 174 71
(Increase) decrease in receivables	3 003 47	10 561 67	13 565 14
Increase (decrease) in payables	(2 072 17)	(15 072 83)	(17 145 00)
Net Cash Provided (Used) in Operating Activities	<u><u>65 656 63</u></u>	<u><u>124 805 33</u></u>	<u><u>190 461 96</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Three Oaks, Berrien County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Three Oaks. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

The Downtown Development Authority was created as a tax-increment financing district to correct and prevent deterioration to the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The Authority is governed by a five member board, selected by the Village Council. The Authority's budget is subject to approval by the Village Council.

The component unit is an entity for which the primary government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

All inventories are valued at cost using the first in first out method.

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of July 1 and the related property taxes become a lien on March 1 of the following year. These taxes are due on September 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2007 tax roll millage rate was 13.046 mills, and the taxable value was \$36,704,041.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	30-40 years
Buildings, additions and improvements	15-40 years
Equipment	5-15 years
Water and sewer systems	20-50 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deficit Fund Balances

As of September 30, 2007, the major and local street funds had deficit fund balances of \$204,635.51 and \$157,519.81, respectively. Management has reduced those deficits during the seven months ended September 30, 2007, and plans to eliminate them as soon as possible.

Note 4 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated three banks for the deposit of Village funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 4 – Deposits and Investments (continued)

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>		
	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Total Deposits	<u>811 028 93</u>	<u>52 213 85</u>	<u>863 242 78</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	284 249 49
Uninsured and Uncollateralized	<u>582 226 85</u>
Total Deposits	<u>866 476 34</u>

The Village of Three Oaks did not have any investments as of September 30, 2007.

Note 5 – Capital Assets

Capital asset activity of the Village's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 3/1/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/07</u>
<u>Governmental Activities:</u>				
Land improvement	306 708 00	-	-	306 708 00
Buildings and improvements	397 261 00	-	-	397 261 00
Equipment	<u>807 349 00</u>	<u>-</u>	<u>-</u>	<u>807 349 00</u>
Total	1 511 318 00	-	-	1 511 318 00
Accumulated Depreciation	<u>(792 040 70)</u>	<u>(33 780 09)</u>	<u>-</u>	<u>(825 820 79)</u>
Net Governmental Capital Assets	<u>719 277 30</u>	<u>(33 780 09)</u>	<u>-</u>	<u>685 497 21</u>
<u>Business-Type Activities:</u>				
Water and Sewer Systems	8 792 062 00	-	-	8 792 062 00
Accumulated Depreciation	<u>(2 784 837 00)</u>	<u>(124 174 71)</u>	<u>-</u>	<u>(2 909 011 71)</u>
Net Business-Type Capital Assets	<u>6 007 225 00</u>	<u>(124 174 71)</u>	<u>-</u>	<u>5 883 050 29</u>

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 6 – Budget Variances

During the seven months ended September 30, 2007, Village expenditures exceeded the budgeted amounts as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
Major Street Fund Activity:			
Highways and streets	-	7 976 40	7 976 40
Local Street Fund Activity:			
Highways and streets	-	7 445 88	7 445 88

Note 7 – Restricted Assets

In accordance with Village ordinances, specific assets of the Water Fund and Sewer Fund have been restricted for the funding of required reserves. These reserves have been established to provide for the revenue bond debt service and replacement of fixed assets. As of September 30, 2007, the Water Fund restricted assets were \$124,448.36 and the Sewer Fund restricted assets were \$96,605.09.

Note 8 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 3/1/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 9/30/07</u>
Governmental activities:				
Contract Payable – CAT Loader	47 467 00	-	-	47 467 00
Total governmental activities	47 467 00	-	-	47 467 00
Business-type activities:				
2001 Sanitary Sewer Clean Water Program Loan	1 805 000 00	-	95 000 00	1 710 000 00
2001 Sanitary Sewer System Revenue Bonds	1 096 000 00	-	13 000 00	1 083 000 00
1978 Water Supply System Revenue Bonds	135 000 00	-	-	135 000 00
1992 Water Treatment Plant	615 000 00	-	-	615 000 00
Total business-type activities	3 651 000 00	-	108 000 00	3 543 000 00
Total primary government	3 698 467 00	-	108 000 00	3 590 467 00

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 9 – Contract Payable – CAT Loader

In 2006, the Village obtained a loan in the amount of \$75,467.00 to fund the purchase of a CAT Loader. The loan requires payment in three annual payments in the amount of \$17,692.20 including interest at the rate of 5.80% per annum. As of September 30, 2007, the principal balance outstanding was \$47,467.00.

Note 10 – 2001 Sewer Clean Water Loan

2001 Sanitary Sewer Clean Water Program Loan (through the Michigan Municipal Bond Authority), maturing serially through 2022 in annual amounts ranging from \$90,000.00-\$135,000.00, plus interest at 2.5%.

<u>Due Date</u>	<u>Principal Amount</u>
4-1-08	95 000 00
4-1-09	100 000 00
4-1-10	100 000 00
4-1-11	100 000 00
4-1-12	105 000 00
4-1-13	110 000 00
4-1-14	110 000 00
4-1-15	115 000 00
4-1-16	115 000 00
4-1-17	120 000 00
4-1-18	120 000 00
4-1-19	125 000 00
4-1-20	130 000 00
4-1-21	130 000 00
4-1-22	<u>135 000 00</u>
Total	<u>1 710 000 00</u>

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 11 – 2001 Sewer Revenue Bonds

2001 Sanitary Sewer System Revenue Bonds, maturing serially through 2041 in annual amounts ranging from \$13,000-\$63,000, plus interest 4.5%.

<u>Due Date</u>	<u>Principal Amount</u>
5-1-08	14 000 00
5-1-09	15 000 00
5-1-10	15 000 00
5-1-11	16 000 00
5-1-12	17 000 00
5-1-13	17 000 00
5-1-14	18 000 00
5-1-15	19 000 00
5-1-16	20 000 00
5-1-17	21 000 00
5-1-18	22 000 00
5-1-19	23 000 00
5-1-20	24 000 00
5-1-21	25 000 00
5-1-22	26 000 00
5-1-23	27 000 00
5-1-24	28 000 00
5-1-25	30 000 00
5-1-26	31 000 00
5-1-27	32 000 00
5-1-28	34 000 00
5-1-29	35 000 00
5-1-30	37 000 00
5-1-31	39 000 00
5-1-32	40 000 00
5-1-33	42 000 00
5-1-34	44 000 00
5-1-35	46 000 00
5-1-36	48 000 00
5-1-37	50 000 00
5-1-38	53 000 00
5-1-39	55 000 00
5-1-40	57 000 00
5-1-41	<u>63 000 00</u>
Total	<u>1 083 000 00</u>

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 12 – 1978 Water Bonds

1978 Water Supply System Revenue Bonds, maturing serially through 2016 in annual amounts of \$15,000.00, plus interest at 5.0%.

<u>Due Date</u>	<u>Principal Amount</u>
1-1-08	15 000 00
1-1-09	15 000 00
1-1-10	15 000 00
1-1-11	15 000 00
1-1-12	15 000 00
1-1-13	15 000 00
1-1-14	15 000 00
1-1-15	15 000 00
1-1-16	15 000 00
	15 000 00
Total	135 000 00

Note 13 – 1992 Water Bonds

1992 Water Treatment Plant, maturing serially through 2032 in annual amounts ranging from \$10,000-\$50,000, plus interest at 6.625%.

<u>Due Date</u>	<u>Principal Amount</u>
1-1-08	10 000 00
1-1-09	10 000 00
1-1-10	10 000 00
1-1-11	10 000 00
1-1-12	15 000 00
1-1-13	15 000 00
1-1-14	15 000 00
1-1-15	15 000 00
1-1-16	15 000 00
1-1-17	20 000 00
1-1-18	20 000 00
1-1-19	20 000 00
1-1-20	20 000 00
1-1-21	25 000 00
1-1-22	25 000 00
1-1-23	25 000 00
1-1-24	30 000 00
1-1-25	30 000 00
1-1-26	35 000 00
1-1-27	35 000 00
1-1-28	35 000 00
1-1-29	40 000 00
1-1-30	45 000 00
1-1-31	45 000 00
1-1-32	50 000 00
	50 000 00
Total	615 000 00

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 14 – Transfers

The amounts of transfers are as follows:

<u>Primary Government</u>	<u>Transfers In</u>	<u>Component Unit</u>	<u>Transfers Out</u>
General	50 000 00	Downtown Development Authority	50 000 00
Total	<u>50 000 00</u>	Total	<u>50 000 00</u>

Note 15 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 16 – Pension Plan

The Village has a defined contribution pension plan covering all full-time employees. The Village contributes a percentage of each covered employee's wages to the plan. Each covered employee also contributes to the plan. The net pension expense for the seven months ended September 30, 2007, was \$15,359.02.

Note 17 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 18 – Building Permits

For the seven months ended September 30, 2007, the Village had building permit revenues of \$10,887.20 and building permit expenses of \$5,622.82.

Note 19 – Segment Information for Enterprise Funds

The Village maintains two Enterprise Funds which provide water and sewer services. Segment information for the seven months ended September 30, 2007, is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues	100 812 28	156 409 15
Depreciation expense	22 509 08	101 665 63
Change in net assets	21 175 73	(22 497 62)
Operating income (loss)	42 216 25	27 650 86
Bonds payable	750 000 00	2 793 000 00
Net working capital	65 742 72	132 395 17
Net assets	162 692 54	2 568 326 38

VILLAGE OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Note 20 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General	249 226 70	Major Street	69 876 31
		Local Street	161 741 76
		Water	12 256 89
		Sewer	5 351 74
	<u>249 226 70</u>		<u>249 226 70</u>
Water	<u>907 85</u>	Sewer	<u>907 85</u>
Component Unit-DDA	<u>33 179 99</u>	Primary Government-General Fund	<u>33 179 99</u>
Total	<u>283 314 54</u>	Total	<u>283 314 54</u>

Note 21 – Restatements

Adjustments were made to restate the fund balances/net assets of governmental activities at March 1, 2007 as follows:

	<u>General Fund Fund Balance</u>	<u>Major Street Fund Fund Balance</u>	<u>Net Assets</u>
As originally stated – March 1, 2007	413 695 76	(287 659 41)	3 338 475 56
Prior period restatements:			
Cash in bank	9 627 13	-	9 627 13
Property taxes receivable	37 339 13	-	37 339 13
Prepaid assets	(38 000 00)	-	(38 000 00)
Capital assets	-	-	67 920 30
Accounts payable	-	43 747 65	43 747 65
Contract payable	-	-	(47 467 00)
As Adjusted – March 1, 2007	<u>422 662 02</u>	<u>(243 911 76)</u>	<u>3 411 642 77</u>

VILLAGE OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Seven months ended September 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	560 000 00	560 000 00	477 905 57	(82 094 43)
Licenses and permits	13 200 00	13 200 00	20 358 07	7 158 07
State revenue sharing	370 000 00	370 000 00	90 496 15	(279 503 85)
Charges for services - PTAF	-	-	4 780 06	4 780 06
Charges for services – police	58 700 00	58 700 00	30 855 45	(27 844 55)
Interest	5 000 00	5 000 00	2 724 81	(2 275 19)
Special assessments	80 400 00	80 400 00	80 040 00	(360 00)
Miscellaneous	40 000 00	40 000 00	1 246 95	(38 753 05)
Total revenues	1 127 300 00	1 127 300 00	708 407 06	(418 892 94)
Expenditures:				
Legislative:				
Village Council	9 300 00	9 300 00	9 300 00	-
General government:				
Clerk	31 000 00	31 000 00	9 634 90	(21 365 10)
Treasurer	18 000 00	18 000 00	13 330 67	(4 669 33)
Unallocated	165 348 00	165 348 00	131 030 90	(34 317 10)
Public safety:				
Police protection	283 498 05	283 498 05	148 696 17	(134 801 88)
Fire protection	40 000 00	40 000 00	38 000 00	(2 000 00)
Planning and zoning	12 050 00	12 050 00	11 790 87	(259 13)
Public works:				
Highways and streets	283 890 00	283 890 00	147 174 86	(136 715 14)
Health and recreation:				
Parks and recreation	31 362 00	31 362 00	21 827 82	(9 534 18)
Total expenditures	874 448 05	874 448 05	530 786 19	(343 661 86)
Excess (deficiency) of revenues over expenditures	252 851 95	252 851 95	177 620 87	(75 231 08)
Other financing sources (uses):				
Operating transfers in	-	-	50 000 00	50 000 00
Total other financing sources (uses)	-	-	50 000 00	50 000 00
Excess (deficiency) of revenues and other sources over expenditures and other uses	252 851 95	252 851 95	227 620 87	(25 231 08)
Fund balance, March 1	-	-	422 662 02	422 662 02
Fund Balance, September 30	252 851 95	252 851 95	650 282 89	397 430 94

VILLAGE OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Seven months ended September 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	-	-	46 919 68	46 919 68
Interest	-	-	332 97	332 97
Total revenues	-	-	47 252 65	47 252 65
Expenditures:				
Public works:				
Highways and streets	-	-	7 976 40	7 976 40
Total expenditures	-	-	7 976 40	7 976 40
Excess (deficiency) of revenues over expenditures	-	-	39 276 25	39 276 25
Fund balance (deficit), March 1	-	-	(243 911 76)	(243 911 76)
Fund Balance (Deficit), September 30	-	-	(204 635 51)	(204 635 51)

VILLAGE OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Seven months ended September 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	-	-	21 077 63	21 077 63
Interest	-	-	107 05	107 05
Total revenues	-	-	21 184 68	21 184 68
Expenditures:				
Public works:				
Highways and streets	-	-	7 445 88	7 445 88
Total expenditures	-	-	7 445 88	7 445 88
Excess (deficiency) of revenues over expenditures	-	-	13 738 80	13 738 80
Fund balance (deficit), March 1	-	-	(171 258 61)	(171 258 61)
Fund Balance (Deficit), September 30	-	-	(157 519 81)	(157 519 81)

CAMPBELL, KUSTERER & CO., P.C.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 21, 2008

To the Village Council
Village of Three Oaks
Berrien County, Michigan

We have audited the financial statements of the Village of Three Oaks, Berrien County, Michigan, as of and for the seven months ended September 30, 2007, and have issued our report thereon dated March 21, 2008. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether Village of Three Oaks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Three Oaks' internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted an inadequate control over cash transactions caused by an inherent lack of segregation of duties which is due to the limited number of office personnel employed involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended solely for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

March 21, 2008

To the Village Council
Village of Three Oaks
Berrien County, Michigan

We have audited the financial statements of the Village of Three Oaks for the seven months ended September 30, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Three Oaks in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council
Village of Three Oaks
Berrien County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were given to the Village Clerk and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

The Village's system of internal control is affected by the size of the staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Village cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Village Council Members understand these circumstances when performing their oversight responsibilities.

INVESTMENT POLICY

The Village Council has not adopted an investment policy.

We recommend that the Village Council adopt an investment policy as soon as possible.

BUDGETS

The Village Council did not adopt budgets for the Major Street Fund and the Local Street Fund.

We recommend that the Village Council adopt budgets for these funds as required by State law.

To the Village Council
Village of Three Oaks
Berrien County, Michigan

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated September 30, 2007.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,


CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants